1-1-1988

Washington report, vol. 17 no.41, December 5, 1988

American Institute of Certified Public Accountants.

AICPA Washington Report

December 5, 1988, Volume XVII, Issue 41

FEDERAL DEPOSIT INSURANCE CORPORATION

Comments are being solicited on a proposed rule which allows the FDIC to find and prescribe by regulation that certain liabilities of a bank are deposit liabilities by general usage (see the 11/25/88 Fed. Reg., pp. 47723-47726). The proposed regulation would find that a bank's liability on a promissory note, bond, acknowledgment of advance, or similar obligation that is issued or undertaken by the insured bank as a means of obtaining funds is a deposit liability. The FDIC said the proposed rule is an attempt to resolve problems engendered by deposit and non-deposit issuances. First, the FDIC believes that many of the "non-deposit" liabilities are already within the definition of "deposit," and the FDIC would be required to insure them in the event of a bank failure. Secondly, these liabilities currently are not being assessed and issuers of such obligations are not paying their appropriate share into the deposit insurance fund. Finally, the consumer may be confused as to what type of liability he has purchased and whether he has deposit insurance coverage. Moreover, the status of the instrument is important in terms of preference for depositors in the event a bank is closed and liquidated. Comments are specifically requested on whether such liabilities issued to third parties not directly involved in the transaction should be included in the exemption; whether or not any of the liabilities defined as deposits under this regulation should or should not be considered deposits, as well as whether liabilities not covered should be; and the usage of any such instruments. For further information after reading the proposed rule, contact Katharine H. Haygood at the FDIC at 202/898-3732.

The need for quick action to stop the losses of the 100 plus thrift institutions in the worst condition was the subject of a speech given by Mr. L. William Seidman, chairman of the FDIC, to the National Press Club in Washington, D.C. on 11/30/88. Also, Mr. Seidman proposed a 10-point program for improving the nation's deposit insurance system. Mr. Seidman stated that the immediate priority should be to stop the losses taking place among the hopelessly insolvent thrifts. According to Mr. Seidman, "The worst twenty percent of the remaining insolvent institutions account for around 80 percent of the growth in losses. We need to close the worst first at an estimated cost of $30 billion." In addition, changes are necessary to maintain the deposit insurance system in a financially sound condition. Among several recommendations cited were that the Federal insurer should be allowed to operate like a private insurer; the Federal insurer should be separately budgeted nad not be part of the regular Federal budget; the Federal insurer must maintain the integrity of its insurance by preventing undue risk taking by insured institutions and by having the Federal insurer be independent of the industry it regulates and of chartering authorities; the insurer should set insurance premium rates that reflect experience; the Federal insurer should have the right to decide who shall have Federal deposit insurance; and risk supervision of financial institutions should be improved.

GENERAL ACCOUNTING OFFICE

A series of reports highlighting the issues and problems that will confront the 101st Congress, which convenes in January, and the Bush Administration have been released by the GAO. Several of the reports may be of specific interest and are listed with their title and GAO order number, as follows: Internal Revenue Service Issues, GAO/OCG-89-26TR; Treasury Issues, GAO/OCG-89-17TR; Financial Management Issues, GAO/OCG-89-7TR; Financial Services Industry Issues, GAO/OCG-89-4TR; Defense Issues, GAO/OCG-89-9TR; and Health and Human Services Issues, GAO/OCG-89-10TR.

Regarding the IRS, the GAO said, "The IRS needs to modernize its information technology, strengthen human resources, improve collection activities, and narrow the tax gap." Regarding the Treasury Department, the GAO said the Secretary faces many "daunting challenges," including restoring stability to a shaken financial services industry, developing policies to address the pressing U.S. trade deficit, enhancing reform efforts to improve the government's second-rate accounting systems, ...and addressing serious problems within Treasury." Regarding financial management issues, the GAO identified four components which it believes are important--1) Restructure the budget to include capital and operating subtotals for general, trust and enterprise activities, and reformulate deficit reduction targets to correspond with the revised budget structure; 2) Develop politically binding agreements on multiyear macro budget targets between the White House and the Congress in a fashion similar to those set during the legislative-executive budget summit of 1987; 3) Establish a chief financial officer structure for the government, which would provide leadership and direction for financial systems, reporting, and internal control improvements; and 4) Retain the President's Council on Integrity and Efficiency and continue its activities to coordinate inspector general efforts to prevent and detect fraud, waste, and abuse. Regarding the financial services industry, the GAO identified four issues it believes should be included in any agenda the Administration and Congress develop. They are handling troubled financial institutions, regulating the merging of banking and nonbanking lines of business, regulating linked securities and futures markets, and regulating global capital markets. Regarding defense issues, the GAO said, "It may be time to consider legislation which would require annual management reports by defense contractors on their internal controls and an independent public accountant's opinion on management's representation." Regarding health issues, one of the areas addressed by the GAO concerns refining Medicare's Hospital Prospective Payment System (PPS), under which a fixed amount is paid for all cases falling within a diagnosis related group. GAO noted that some refinements are needed to assure greater equity in PPS rates. Under PPS, GAO said, hospitals are "supposed to profit or lose based on their levels of efficiency, but whether this is the case is uncertain." PPS rates were based on 1981 unaudited cost data that reflected services provided under the incentives of Medicare's former cost reimbursement system. The GAO said its work has shown that the data "included large amounts of unnecessary services and/or unallowable costs...What relationship, if any, PPS rates bear to the costs hospitals now incur is not known." The GAO recommended that the Secretary "rebase PPS rates using current, audited cost data so that rates reflect hospital costs under the efficiency incentives of PPS."

Copies of the reports are available from the GAO by telephoning 202/275-6241 or by writing P.O. Box 6015, Gaithersburg, MD 20877. The first five copies of each report are available free of charge. Additional copies are $2.00 each.

INTERSTATE COMMERCE COMMISSION

New reporting requirements for Class I railroads to accommodate revenue adequacy standard changes are included in a final rule issued by the ICC (see the 11/18/88 *Fed. Reg.*, pp. 46619-21). Additionally, the Commission has adopted the Railroad Accounting Principles Board's (RAPB) Entity Principle. According to the ICC, the intended effect of the changes is to improve the determination of revenue adequacy. The final rule specifically calculates Return on Investment (ROI) for revenue adequacy on a consolidated basis using the RAPB's definition of entity, adopts a methodology for adding interest income on the working capital allowance to net railway operating income, and adopts a methodology for excluding income taxes on nonoperating income. These changes are accomplished by adding a new schedule to railroad Annual Report Form R-1. Further, new recordkeeping requirements are set forth for affiliated companies to support and document the ROI methodology. The final rule was effective 11/18/88 and the revised reporting requirement is effective for the 1988 reporting year and is due 30 days after the 3/31/89 R-1 deadline. For further information after reading the regulations, contact Brian A. Holmes at the ICC at 202/275-7510.

RURAL ELECTRIFICATION ADMINISTRATION

Revision and codification of REA's accounting system requirements for telephone borrowers is proposed by the REA (see the 11/29/88 Fed. Reg., pp. 47959-69). The REA proposes to amend 7 CFR Chapter XVII, REA Regulations, by adding a new part, Part 1770, Accounting, consisting of Subpart A, Accounting System Requirements. Current REA policy on this subject is established in REA Bulletin 461-1, Accounting System Requirements for Telephone Borrowers of the Rural Electrification Administration. In addition, revisions are being proposed to the existing system which will coincide with the revision of the Federal Communications Commission (FCC) Uniform System of Accounts for Telecommunications Companies. Due to the cooperative organization of many of its borrowers and the provisions included in REA's mortgage agreements and lien accommodations, REA has augmented the FCC Uniform System of Accounts with supplementary accounts which will provide the financial information necessary to operate a rural telecommunications enterprise. The current system, REA noted, was developed at a time when a rigid institutionalized regulatory environment was expected to continue indefinitely. With the introduction of competition and a variety of new products and services in the last decade, the existing systems of accounts became inadequate to handle the needs of the telecommunications carrier. Comments must be received by 1/30/89. For further information after reading the proposal, contact William E. Davis at the REA at 202/382-9450.

SECURITIES AND EXCHANGE COMMISSION

Staff Accounting Bulletin No. 80, regarding the application of Rules 3-05 and 1-02(V) of Regulation S-X in determining the financial statements of businesses acquired or to be acquired which are required to be included in registration statements for certain initial public offerings, has been published in the Federal Register (see the 11/28/88 Fed. Reg., pp. 47800-03, and the 11/28/88 Wash. Rpt.). For further information after reading the bulletin, contact Teresa Iannaconi at the SEC at 202/272-2130 or Robert Bayless at 202/272-2553.

TREASURY, DEPARTMENT OF

Incentive stock option plans and employee stock purchase plans are the subject of temporary and final regulations issued recently by the IRS (see the 12/2/88 Fed. Reg., pp. 48639-41). The IRS said questions have arisen concerning the method and degree of stockholder approval necessary with respect to incentive stock option plans and employee stock purchase plans. The regulations affect corporations establishing incentive stock option or employee stock purchase plans and provide them with guidance concerning plan qualification requirements under sections 422A and 423 of the Internal Revenue Code. For further information after reading the regulations, contact Michael J. Grace at the IRS at 202/566-6460.

Final regulations permitting Federal tax liens to be filed electronically or through a magnetic medium in states where such filing is permitted have been adopted by the IRS (see the 11/26/88 Fed. Reg., pp. 47723-24). These final regulations replace proposed and temporary regulations issued on 2/23/88 (see the 2/29/88 Wash. Rpt.). According to the IRS, the use of electronic or magnetic media to file a notice of tax lien will enable the IRS to provide better service to the public by 1) reducing the time it takes to notify the public that a lien exists; 2) reducing the amount of paperwork necessary to file a notice; and 3) in certain cases, eliminating or reducing the cost of filing a notice of lien, the cost of which is generally billed to the taxpayer involved. Paper forms will continue to be used in states that do not permit electronic or magnetic filing. The final regulations are effective for a notice of Federal tax lien filed on or after 2/23/88. For further information after reading the regulations, contact Ms. Ada S. Rousso at 202/566-4104.

Richard E. Foley, CPA, has been appointed regional director of appeals for the Southeast Region, the IRS announced recently. As regional director, Mr. Foley is responsible for resolving tax disputes between the IRS and taxpayers who wish to have their cases reviewed without litigation, the Service said. Prior to this appointment, he served as the assistant regional director of appeals for the Midwest Region. He has also served on the staff of the assistant regional commissioner for audit in Chicago and in the appeals division.

SPECIAL: AICPA TESTIFIES AT IRS HEARING ON PROPOSED SECTION 448 REGULATIONS

The AICPA testified at an IRS hearing that the bad debt ratio in proposed and temporary regulations for the nonaccrual-experience method of accounting should be modified. The testimony was presented by Lawrence F. Portnoy, the chairman of the AICPA Tax Accounting Subcommittee and a partner with Price Waterhouse, in behalf of the AICPA at a hearing conducted 12/1/88 in Washington, D.C. on the section 448 regulations. An alternative formula which the AICPA said would "better reflect the intent of the statute and the taxpayer's prior experience" was suggested. Mr. Portnoy said, "The congressional and statutory focus of the nonaccrual-experience method of accounting is not on 'bad debts,' but rather on the portion of each service receivable which is not expected to be collected." The regulations, he testified, "result in a proper exclusion of income where no partial payments are received and the actual amounts uncollectible are spread evenly over all accounts. However, a distortion of income results where partial payments are received or where the historical experience ratio represents specific uncollectible accounts rather than a pro-rata portion of each account...Both the separate receivable system and the periodic system under the current regulations appear deficient in their application to the numerous situations in which either partial payments are received against service accounts receivable or the taxpayer's experience ratio represents specific uncollectible accounts rather than a pro-rata portion of each account receivable." The AICPA recommendation recognizes that where partial payments are received the "uncollectible amount" is represented by the last payment due, not a pro-rata portion of each payment. Secondly, he said, this approach recognizes that uncollectible amounts, and historical ratios, may more appropriately relate to specific customer accounts rather than a pro-rata portion of all service accounts receivable. The computation in the AICPA proposal would be performed on a separate year by year basis, at least annually. Mr. Portnoy also testified that the final regulations should extend the election due dates in order to allow taxpayers to fully consider the calculations required and elect the provisions in the first return due following the issuance of the final regulations.

SPECIAL: AICPA TASK FORCE URGES NATIONAL ECONOMIC COMMISSION RECOMMENDATION ON FINANCIAL MANAGEMENT

Members of the National Economic Commission were urged, by the AICPA Task Force on Improving Federal Financial Management, to consider including in their deliberation and recommendations "the need for the Federal government to address the second key element of sound fiscal policy and accountability, namely, good financial management." Good financial management, the letter stated, includes a well-defined and effective financial management organizational structure, modern and compatible financial information systems, qualified and experienced financial management personnel, timely and meaningful financial statements, and independent audits. In the 11/11/88 letter written by Cornelius E. Tierney, the chairman of the task force, the Commission members were advised that to "address the identified weaknesses in federal financial management in a comprehensive manner, steps should be taken either administratively or legislatively to ensure implementation of: 1) A chief financial officer for the federal government who would implement a requirement for government-wide accounting and reporting and who would be responsible for the preparation of meaningful and useful financial reports and information for the federal government; 2) A uniform body of accounting and reporting standards for the federal government to be used by all departments and offices; 3) A chief financial officer for each executive department and agency who would be responsible for that department or agency's accounting and reporting, including the related systems; and 4) A program of audit to provide annually to the Congress, the President, and the American people an independent opinion on the financial position of the federal government and its agencies and the results of the operations." The letter also stated, "We believe these are essential elements that must be addressed to restore credibility to federal financial management. In so doing, a strong signal will be sent to the American people that Washington is serious about solving the current budget deficit and that future decisions will be based on relevant and reliable financial data."

For further information contact Shirley Twillman at 202/737-6600.

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